

1 BEFORE THE
2 FEDERAL ENERGY REGULATORY COMMISSION
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6 IN THE MATTER OF: :

7 TELECONFERENCE :

8 EXTERNAL AFFAIRS :

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12 Room 11-H-7
13 Federal Energy Regulatory
14 Commission
15 888 First Street, NE
16 Washington, DC
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18 Monday, March 18, 2002
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21 The above-entitled matter came on for teleconference,
22 pursuant to notice, at 2:00 p.m.
23
24

1 APPEARANCES:

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3 Tom Russo

4 Charles Whitmore

5 Robert Gramlich

6 Jonathan First

7 Jamie Simler

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PROCEEDINGS

MR. WHITMORE: My name is Charlie Whitmore at FERC and we are little bit late getting started so I think we probably can get started.

Welcome to everybody who is on the conference call. The purpose of this meeting is to clarify any thoughts you have about the Cost Benefits Study that FERC had ICF undertake to answer any questions that we can that you have, to listen to any comments that you have, and fundamentally to get things so that it is easier for you to answer more fully for the comment period which the comments are due April 9 and reply comments April 23.

We are not going to have any presentation at this end. You have all had the report for a while. We would rather spend the time talking about it and answering questions.

The meeting will be transcribed and the transcription will be available for free in 10 days and also if you want it sooner for payment.

The transcript will be entered into all of the RTO dockets and so will the transcripts for all of the other teleconferences that we have had over the last few days. We have had four with states. This is our second with the industry and the public.

1 So because it is being transcribed I would like

1 you all to introduce yourselves before you make a comment
2 or ask a question and shortly we will go around to all the
3 participants and find out who is here.

4 I am going to start out with FERC on that. Could
5 each of the people around the table introduce themselves,
6 please?

7 MR. RUSSO: I am Tom Russo with the FERC.

8 MR. FIRST: Jonathan First with the FERC.

9 MR. GRAMLICH: Rob Gramlich.

10 MS. SIMLER: Jamie Simler.

11 MR. WHITMORE: Okay. From ICF, do we have
12 anybody on the line from ICF?

13 MR. TURNER: Yes, this is Jim Turner from ICF,
14 Project Manager.

15 MR. WHITMORE: Great. If you could speak up a
16 little, Jim, I think that might be helpful to everybody.

17 MR. TURNER: Okay.

18 MR. WHITMORE: What I would like to do is go
19 around and make sure we have a record of everybody who is
20 in on the conference call and in order to get an order to
21 it.

22 What I am going to do is go alphabetically down
23 the list with the A's. I would like it if you could
24 respond using the name of whatever concern you are with,

1 although it is not critical. So if you are with the

1 American whatever whatever, A's would be your thing.

2 Do we have any A's on the line?

3 MS. KELLY: Sue Kelly. I am actually with

4 Miller, Bailey, O'Neil which is a law firm here in

5 Washington. I have with me Phyllis Kimble, but we are here

6 on behalf of the Arkansas Electric Cooperative.

7 MR. WHITMORE: Great. Thank you. Any more A's?

8 MR. ELLIOT: Randy Elliot and I am also here on

9 behalf of Alabama Municipal Electric Authority.

10 MR. WHITMORE: Thank you.

11 MR. RANA: I am with American Electric Power.

12 MR. WHITMORE: Could you repeat your name,
13 please.

14 MR. RANA: Raj Rana.

15 MR. WHITMORE: Would you spell the last name?

16 MR. RANA: R-a-n-a.

17 MR. WHITMORE: Any more A's?

18 MR. COLLINS: This is Camden Collins with Arthur
19 Andersen.

20 MR. WHITMORE: Great. And other A's? B's? C?

21 MS. MC LAUREN: I am Laurie McLauren with CPL,
22 California Power & Light.

23 MR. HENLEY: Rick Henley with City Water Lines in
24 Jonesboro, Arkansas and Municipal.

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MR. WHITMORE: Any other C's?

1 MR. BEENY: Sean Beeny with Miller, Balis &
2 O'Neil representing Central Power Electric Company in South
3 Carolina.

4 MR. WHITMORE: Any other C's? D?

5 MR. TRIMBLE: This is Jeff Trimble with Duke
6 Energy.

7 MR. WHITMORE: Thank you.

8 MR. FRAZIER: This is Lonnie Frazier with Duke
9 Energy.

10 MR. WHITMORE: Any other D's? Okay. How about
11 E?

12 MR. FOLEY: This is Chris Foley with Edison
13 Mission Energy.

14 MS. TERRICK: Erin Terrick with the Electric
15 Power Supply Association.

16 MR. WHITMORE: Other E's?

17 MR. DAVIS: Ed Davis, Entergy Services.

18 MR. WHITMORE: Any more E's?

19 MR. FRENFELD: Bob Frenfeld with Entergy.

20 MR. WHITMORE: Great. Anyone else?

21 MR. GREENLEE: Steven Greenlee with Energy
22 Business Watch.

23 MR. WHITMORE: Thank you. Anyone else? Okay.
24 How about F?

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MS. DEAZON: Rene Deazon with Florida Power &

1 Light.

2 MR. WHITMORE: Thank you. Other F's?

3 MR. ODEM: John Odem with Florida Power
4 Corporation.

5 MR. WHITMORE: Thank you. Other F's?

6 MR. CAFT: Darrell Caft for Florida Light.

7 MR. WHITMORE: Any more Florida's or other F's?
8 No. How about G as in Georgia? No. H? I? J? K? L?

9 MR. LANE: Chris Lane with Light and Floor, a
10 news -- in Florida.

11 MR. WHITMORE: Any other L's? M?

12 MS. WUSER: Meagan Wuser with Madison Gas &
13 Electric.

14 MR. WHITMORE: Any more M's?

15 MS. FRAZIER: Kim Frazier, McGraw Hill.

16 MR. WHITMORE: Any more M's?

17 MS. SAJACK: Muir. Sarah Sajack.

18 MR. WHITMORE: Thank you. Other M's?

19 MR. WAKEFIELD: Dick Wakefield from Kema
20 Consulting representing Meak Power.

21 MR. WHITMORE: Great. Thank you. Other M's?

22 N?

23 MR. KERR: This is Commissioner Jim Kerr from
24 North Carolina Utilities Commission.

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MR. WHITMORE: Welcome.

1 MS. STEVENSON: This is Donna Stevenson and
2 Jennifer Jenson with NRG.

3 MR. WHITMORE: Okay. Other N's?

4 MR. ENGRESS: Yes, this is Nudrose Engress with
5 National Grid.

6 MR. WHITMORE: Great. Other N's? O?

7 MR. CELL: This is Ron Cell from Orlando
8 Utilities Commission.

9 MR. WHITMORE: Welcome. P? Or any more O's?
10 No. P?

11 MS. JENSON: Betty Jenson -- Electric & Gas
12 Company.

13 MR. WILLIAMS: Jeff Williams, PN
14 Interconnection.

15 MR. WHITMORE: Other P's?

16 MR. POOLE: Bruce Poole from FERC.

17 MR. WHITMORE: Any other P's? Q? R? S?

18 MS. LARSON: Karen Larson from Rural Utility
19 Service Department of Agriculture.

20 MR. WHITMORE: Thank you.

21 MR. ROWE: Josh Rowe, Cash and Bingham for
22 Southern under the S's.

23 MR. RUSSO: Hi, Josh.

24 MS. KELLY: Sue Kelly again for Seminole Electric

1 Cooperative. I would also like to amend my prior

1 appearance to Alabama Cooperative going back to the A's.

2 MR. WHITMORE: Any more R's?

3 MR. KLINE: Carl Kline from Stanley Corporation
4 or Stanley Marketing and South Carolina Electric & Gas.

5 MR. WHITMORE: So you got two S's.

6 MR. SMITH: Bill Smith, Smith International and
7 for South Carolina International.

8 MR. WHITMORE: R's and S's. Okay. How about T?

9 MR. SMITH: Walter Smith, Tebo Commerce
10 Services.

11 MR. WHITMORE: Great. Other T's?

12 MS. NEARY: Barbary Neary and Rick Lee for
13 Tennessee Valley Authority.

14 MR. WHITMORE: Welcome. Any other T's? Okay.
15 The rest of these maybe we can all clump together. Anybody
16 from U to Z?

17 MR. COMBS: Alan Combs with UCV Energy.

18 MR. BECKER: Mark Becker with Williams Energy.

19 MR. WHITMORE: Thank you.

20 MR. STEFFAN: Jim Steffan of UBS Warburg Energy.

21 MR. WHITMORE: Welcome. Is there anybody that we
22 have missed?

23 MR. ROBERTS: Yes, William Roberts, Edison
24 Mission.

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MR. WHITMORE: Welcome. Anyone else? Okay.

1 Well, I think we can just get started now.

2 Anybody who has the first question, please feel free to
3 start out.

4 MR. BECKER: This is Mark Becker with Williams
5 Energy. I was curious in how the capacity additions were
6 both selected and under what criteria they were selected,
7 whether it was just to meet reserve margin or could you
8 build a unit strictly based on economics?

9 MR. TURNER: This is Jim Turner, ICF Consulting.
10 Am I audible for folks? Audible enough. I can still be
11 louder.

12 This model is -- let me say there is two initial
13 pieces to the division. First is a set of what ICF
14 considers to be firmly planned builds in different
15 regions.

16 Most people who are doing forecasting are
17 tracking various planned announcements in various stages of
18 play and at some point you make a call, a judgment call
19 essentially, as to a project being realistic enough, far
20 enough long in the planning stage for you to call it a
21 firmly planned build.

22 These are hard wired into the model really in the
23 first couple of years in the forecast.

24 After that comes economic capacity additions and

1 although the model has to meet peak load and reserve

1 requirements, the model is also trying to minimize the cost
2 of doing so; and in that context it can most definitely
3 build a plant on a purely economic basis in order to
4 minimize the costs of meeting load even if it is not
5 required for -- purposes.

6 MR. BECKER: This is Mark Becker again. What
7 type of economics does it look at? Long run economics,
8 short run?

9 Could you explain a little bit more about that
10 process?

11 MR. TURNER: This is a long run optimization
12 model which means it is taking a long term and a dynamic
13 view of options. So a plant will be evaluated over the
14 entire forecast period.

15 Since this forecast period is about 20 years,
16 most plants have a lifetime that would extend beyond that
17 so you could clear it before the forecast period.

18 It is taking into account anticipated
19 environmental requirements, anticipated changes in fuel
20 markets and other input markets and making a determination
21 on that basis.

22 MR. BECKER: Is there a capacity price associated
23 with those economics?

24 MR. TURNER: Yes, there is. The model clears

1 energy and capacity markets separately and by segment, by

1 load segment.

2 There is an energy and a capacity price
3 determined for each segment and each region. First
4 capacity prices may not be relevant for load demand
5 segments but they are still possible.

6 MR. WHITMORE: I think we are free up for another
7 question or comment.

8 MR. BECKER: Thank you.

9 MR. RAMFELD: Bob Ramfeld with -- if people could
10 mute their phones when they are not talking.

11 MR. WHITMORE: This is Charlie Whitmore at FERC.
12 Thank you everybody. More comments, questions?

13 MR. BECKER: This is Mark Becker again at
14 Williams Energy. I was curious about the heat rate
15 efficiency improvement and I believe it was either 5 or 6
16 percent across all units in the system or just particular
17 fuel types?

18 MR. TURNER: This is Jim Turner again at ICF.
19 That particular assumption about heat rates or the thermal
20 efficiency if you prefer is implemented within fossil
21 plants and within subtypes of fossil plants so comparable
22 groups of plants were grouped together for the
23 implementation of that particular assumption. So fossil
24 plants,.

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MR. BECKER: Was that an average of 6 percent

1 across all types? In other words, some certain types of
2 plants would have more efficiency improvement than others
3 or was that 6 percent spread across the board?

4 MR. TURNER: It is implemented consistently and
5 it is based on more detailed statistical analysis that was
6 carried out for previous research.

7 We are citing that research in using that
8 aggregate average that was developed through a much more
9 detailed best practice type of analysis in which for plants
10 that weren't performing as well, we are allowed to approach
11 the best practice criteria to find in that research the
12 average of the top 25 percent as opposed to the best one.

13 MR. BECKER: So a new combined -- something
14 that's been built here in the last couple of years, it
15 would not receive the full 6 percent efficiency improvement
16 then?

17 MR. TURNER: That's right.

18 MR. BECKER: So depending on the fuel type then
19 and -- it would vary that efficiency improvement across
20 fuel types and the average was around 6 percent?

21 MR. TURNER: Right. And, of course, if you are
22 doing the statistical analysis, you would be looking at
23 other issues too including plant size and plant vintage.
24 We have taken a more aggregate approach, but it is based on

1 statistical work that used a much more detailed breakdown.

1 Again, we attempted in many instances to use
2 assumptions and numbers from previous work that we could
3 point to and make use of that partly because of the time
4 frame of the study and partly because of the ability to
5 document.

6 MR. BECKER: Thank you.

7 MR. WAKEFIELD: Rick Wakefield representing New
8 York Power.

9 Is there, just following up on this heat rate
10 improvement assumption, is there or will there be made
11 available a listing of the assumed heat rates for all the
12 generating units in the Southeast region before and after
13 and namely for the base case and also for the RTO policy
14 case?

15 MR. TURNER: I am wondering if FERC staff might
16 want to make a statement in general? There are a lot of
17 various ones coming up here.

18 MR. RUSSO: This is Tom Russo. What we are going
19 to suggest you do is you can certainly surface a request
20 here and we will make note of them, but the best thing to
21 do is put these in writing. Get them to us by the April 9
22 deadline and then what we are going to do is look at the
23 comments that everybody has because previous callers in
24 teleconferences have also requested information.

1 So we don't want to tell you right now that, yes,

1 we will provide something or, no, we won't until we really
2 have taken a look at everything.

3 MR. MERRIT: Would that information be released
4 in aggregate?

5 MR. WHITMORE: Could you identify who that was,
6 please?

7 MR. MERRIT: Sorry. This is Merrit.

8 MR. RUSSO: This is Tom Russo again. I think at
9 this time we are not going to be able to answer that
10 question.

11 Jim, could you provide us some insight on what
12 that would take on the ICF side to do?

13 MR. TURNER: Well, if you are asking about plant
14 level heat rates, I mean that was a limited question to the
15 Southeast region; but as a general matter, it is part of
16 the modeling styles.

17 And from an informational standpoint, it is not a
18 tremendous body of work. I mean the run files themselves
19 are enormous, but part of what we do is pull specific
20 information out of those files and format it for people.

21 So it should not be a tremendous request. Of
22 course, there is different scenarios in different years so
23 it can turn into a fair amount of information; but the
24 information itself is easily available in the sense that it

1 doesn't require further analysis to get at that particular

1 piece of data.

2 MR. WHITMORE: This is Charlie Whitmore at FERC.

3 Let me mention that, two things, number one, anything that
4 does get released to anybody will be released to
5 everybody.

6 And we are having a practice here that anything
7 that goes out from here will go into all of the associated
8 dockets regardless of which region asks for it and so
9 forth.

10 The second thing is that based on the
11 conversations we had with State Commissions last week, we
12 are planning to issue a limited set of additional
13 information tomorrow or possibly the next day to deal with
14 a lot of issues of what assumptions went into the model.
15 Again, a little more clarity on exactly where geographical
16 areas went.

17 There was some question whether Delmara was one
18 place or another, things like that, in the RFP for the
19 study and a couple of other things like that.

20 We are not at the moment planning to release
21 anything that involves a lot of work or lots of extra
22 information or data or any detailed -- anything that's sort
23 of new analysis going into other things.

24 Those are things that you are more than welcome

1 to ask for in the comments due on April 9 and what we are

1 going to do I think is to sit down with all of those
2 requests and try to parcel them out into how we can best
3 satisfy as many of them as we reasonably can and how we can
4 work with other parties perhaps to get at some of the
5 others that may require some more work.

6 So I think the quick answer is that I don't think
7 that we are going to be releasing plant specific heat rates
8 right now. That's not to say that we can't or won't later
9 on, but you should ask for it in the April 9 comments if
10 that's what you want.

11 MR. WAKEFIELD: Dick Wakefield representing Meak
12 Power again with just a follow-up question that isn't
13 related to specific egress. What led ICF to believe that a
14 national average improvement of 6 percent could be achieved
15 for all U.S. fossil units even on the average and could
16 this be achieved as shown by reducing the fixed cost and
17 capital cost from the base case?

18 MR. TURNER: One of the analytic approaches that
19 this study took was to track as closely as possible to a
20 number of related national level analyses that have been
21 conducted.

22 Those are mentioned or summarized in the report
23 itself and include work for the Federal Energy Regulatory
24 commission as well as the Department of Energy.

1

And when you go back and you look at the types of

1 assumptions and the types of scenarios that people have
2 assembled for those types of studies, this assumption about
3 efficiency improvement is basically the conceptual
4 understanding is as you are probably well aware has to do
5 with competitive incentives and incentives on less
6 efficient units to perform better or move out into the
7 competitive dispatch.

8 The approach that's taken in other studies to the
9 issue would be I think generally termed best practice
10 analysis and that is a general -- as a general rule you
11 find that in engineering contexts and also in sort of
12 corporate financial contexts where people analyze corporate
13 performance based on performance indicators.

14 In this instance what has been done in the past
15 and again we did not repeat this exercise in detail for
16 this study, but what people have done in the past is look
17 at the distribution of performance indicators, OT rates
18 and -- and considered distribution of those performance
19 indicators across plants of comparable characteristics and
20 then they have taken a look at who is performing better and
21 who is performing worse.

22 Now, of course, this is a national level study;
23 and it is aggregate in its nature so I think that people
24 could take a harder look at the specifics there and ask

1 questions about what steps within the plant management

1 process are typically undertaken in order to do this sort
2 of improvement.

3 I could go on about this further if you would
4 like. I will pause to see if you are following or getting
5 enough so far.

6 MR. WAKEFIELD: Actually it is helpful. It is
7 just that it is hard to imagine this amount or magnitude of
8 heat rate improvement being made for this many power plants
9 without a significant capital investment.

10 MR. TURNER: Yes, I understand what you are
11 saying there. That is indeed a legitimate question and
12 legitimate issue.

13 I think that what you have to look at there is
14 where those capital improvements would come from and
15 whether they are one time improvements or spread out over
16 time.

17 Some of those dollars might go into O&M, for
18 example, and that again is a legitimate question and a
19 level of detail that people would be well advised to go
20 ahead and take a look at some point.

21 MR. BECKER: Mark Becker with Williams. So is
22 the assumption that these improvements can be made at no
23 cost then? At no capital or variable O&M increased cost in
24 the study?

1

MR. TURNER: That's the way it is implemented for

1 this purpose, that's right.

2 MR. BECKER: Thank you.

3 MR. WHITMORE: Other comments and questions?

4 MR. BEENY: This is Sean Beeny for Central. Can
5 you explain to me how the cost of congestive management is
6 taken into account in this study?

7 MR. TURNER: Sure. This is Jim Turner at ICF
8 again.

9 Essentially what we have got in this analysis is
10 a long run model. It is designed to look at essentially
11 equilibrium provisions.

12 It has got representation read into it as what
13 you would term a transportation network as opposed to a
14 tall power flow approach. Now, when you take a look at
15 that, really the only remanence if you will of congestion
16 per se is the long run internal limits and the transfer
17 limits within region.

18 This model is not designed in this configuration
19 to take a look at more detailed aberrational aspects of
20 congestion management.

21 Now, it can be used in a more detailed
22 configuration and in fact we often use it in combination
23 with an engineering model, in particular Power World, to
24 take a more detailed look at flows and limits and

1 congestion; but at this instance, I would say that I think

1 we have identified in the study that we are not getting
2 into that level of time frame details.

3 That calls into the general category of sort of
4 shorter run market and operational facts which we clearly
5 state need to be taken a look at.

6 MR. BEENY: So that means that increase in
7 consumer costs resulting from the institution of locational
8 marginal pricing is not accounted for here; is that right?

9 MR. TURNER: That's right. The regions
10 themselves are clearing as collective spot pools without
11 nodal transmission links represented inside each region.

12 Again, we can break the model down to the point
13 where we have that. I mean we can run using all the
14 seasonal pricing regions they have got. We can even get to
15 the node by node characterization, but to run a national
16 analysis over the time frame, we don't carry that level of
17 detail.

18 MR. BEENY: Thank you.

19 MR. WHITMORE: This is Charlie Whitmore. Are
20 there other questions or comments?

21 MR. BECKER: This is Mark Becker here at
22 Williams. I was curious about the demand response
23 assumptions that you have made.

24 Could you summarize those and what types of

1 programs or what target populations you may have had in

1 applying the demand reductions?

2 MR. TURNER: Sure. This is Jim Turner, ICF. To
3 start off, let me just mention that the underlying demand
4 forecast that ICF uses in forecasting take as their
5 starting point the NERC reliability assessments and the
6 associated, those forecasts there.

7 We actually do modify the NERC forecasts based on
8 ICF's analysis of past NERC forecast performance.
9 Typically we adjust them upwards slightly in the near term
10 because of some undershoot that have gone on in their
11 forecast recently.

12 When we do that, it is important to note that the
13 NERC forecast includes a certain amount of demand
14 response -- those programs that the utilities report to
15 NERC. So those are in the NERC forecast -- and we are
16 aware of that in tracking how much end response if at all.

17 What we do then on top of that is make an
18 assessment of the effects of the limited amount of retail
19 pricing. Essentially that's implemented in a separate
20 statistical analysis where we have taken it by region and
21 by load segment and the prices in base cases and we are
22 applying a price elasticity to the difference between
23 segmental prices.

24 That is to say there will be a demand response to

1 the difference in the peak and off peak pricing for each

1 region. What that is is what you would call a short run
2 price elasticity.

3 If you look at the price elasticity, there was a
4 summary in the mid '90s by Carol Doll and there has been
5 work since then.

6 Typically you would see a short run price
7 elasticity as kind of a behavior response, if you will.
8 Then in longer term forecasting, particularly in climate
9 change and other contexts, people often use bigger, more
10 elasticity long run elasticities to incorporate capital
11 changes and the ability of people to refit their appliances
12 and things like that.

13 We are not doing that. We are only using it for
14 immediate short run, fairly low price elasticity. We are
15 also only allowing half of the customer base in each region
16 to have that price response so what you have got is a short
17 run price elasticity applied to half of the demand in each
18 region and the responses to the spread between segmental
19 prices within each region.

20 So that's a little technical, but I think it
21 captures what we have actually done here. On average that
22 comes out to .3.4 peak response.

23 MR. BECKER: Mark Becker again. So approximately
24 half of the customer base is allowed to have this price

1 response?

1 MR. TURNER: That's right, yes. We are just
2 trying to indicate the magnitude of the importance of this
3 assumption.

4 MR. BECKER: So your negative. One then is
5 applied to half of the customers?

6 MR. TURNER: That's correct, yes.

7 MR. BECKER: And that represents some type of
8 program to receive that type of response?

9 MR. TURNER: That's right. Questions were raised
10 in the other calls about retail access and is that a
11 requirement to this type of a price response and I don't
12 believe that this position assumes anything specific about
13 retail access only because an integrating utility is quite
14 capable of delivering price signals to any customer class
15 depending on the type of the program and how they are
16 choosing to do that. Just to clarify that point.

17 MR. WHITMORE: This is Charlie Whitmore at FERC.
18 Are there more comments or questions? We are enjoying the
19 Mark Becker show from this end, but are there some other
20 folks that have questions too?

21 MS. LARSON: Karen Larson for Utility Service.
22 Looking at this demand response, why did you end up with
23 3.5 percent?

24 Why didn't you do a range given the uncertainty

1 of getting this level of response on a national level?

1 MR. TURNER: Yes, this is Jim Turner again. That
2 question gets to the quote issue of sensitivity analysis.
3 In fact, most of the scenarios in this study are combining
4 sets of assumptions.

5 They are not pure sensitivities where you compare
6 one -- in fact, those demand response cases happened to be
7 the only case where only one assumption is varied, demand
8 assumption. That is a pure sensitivity on the demand
9 response.

10 But you could also easily develop cases that
11 varied that demand assumption to even further analyze the
12 effect of that and you could even do it in a more fine
13 grain fashion across regions so that some regions had it,
14 some others didn't.

15 That certainly is well within the capabilities
16 here. Again, we were under a contract with certain numbers
17 of scenario and a very sharp time frame; but people have
18 suggested quite a few potential sensitivity and demand
19 responses as clearly one of the key assumptions you look at
20 there.

21 MR. WHITMORE: Other comments, questions?

22 MS. LARSON: This is Karen again. Could you
23 share with us some of the assumptions on which people have
24 suggested that you need further sensitivity analysis?

1

MR. TURNER: Does the committee want to talk

1 about that? I can recall some of them.

2 MR. RUSSO: Tom Russo. Why don't you start and
3 then we will catch up with you. We are going to review our
4 notes as you are speaking.

5 MR. TURNER: Well, I think that one of the
6 most -- actually the demand response has come up more than
7 once I think. In addition, one thing people seem to be
8 interested in making different regional borders for these
9 RTOs.

10 There are some big questions about particular
11 subregions and I think in that context you would look at
12 especially, Virginia, for example, and you would ask some
13 questions about what if you reran the model with those
14 regions configured differently?

15 Another big one was transmission expansion, major
16 expansion. What would be the effect of that and holding
17 the grid as static as we hold it here, it clearly has a
18 different effect and if you allowed either economic builds
19 or you just assumed specific build specific places. So
20 that was important.

21 You could really vary any of these assumptions,
22 but I think to some degree the study is trying to indicate
23 how important those are and it is not that hard to actually
24 get what a different sum of that would take. Those are the

1 main ones that come to mind for me.

1 I also expect people to ask about natural gas
2 prices and that doesn't come up as much. Usually for me.

3 MR. WHITMORE: Charlie Whitmore at FERC. I am
4 not remembering offhand exactly the sorts of things we had
5 last week.

6 If I remember, there were at least a few people
7 in probably the northeast who were interested in issues
8 having to do with emissions, for example, and the treatment
9 of Canada.

10 But all of these things will be in the
11 transcripts and they will be available to you. So I would
12 look for that and also look for the comments on April 8.

13 Are there other questions, comments?

14 MS. LATHROP: This is not a question, but I am
15 sorry, my name is Jane Lathrop with the New York ISO. I
16 think my phone was on mute when you were taking roll call
17 at the beginning of the conference.

18 MR. WHITMORE: Welcome. We are glad you are
19 here.

20 MS. LATHROP: I have been here. I just didn't
21 want to interrupt before.

22 MR. WHITMORE: You get a free question if you
23 want one.

24 MS. LATHROP: I do have a question. The cost of

1 RTOs versus existing ISOs are basically integrated

1 utilities.

2 I understand you are including an estimate of
3 start up costs as one time costs. Have you included any
4 other ongoing cost differentials over the life of this
5 study?

6 MR. TURNER: This is Jim Turner at ICF. The
7 issue of operational costs or ongoing costs, it is actually
8 quite interesting.

9 We ended up we were not going to be able to do a
10 rigorous enough job to separate two countervailing forces
11 which led us to call it basically a wash, but a lot more
12 work could be done to clarify this.

13 Essentially what you are looking at is two
14 opposing forces, one of which would lead to increased costs
15 for RTOs relative existing control areas and one which
16 would lead to lower costs. The factor that could lead to
17 higher costs is to simply increase functionality, more
18 functional requirements for the RTOs to meet.

19 They are probably going to be expected to do
20 certain kinds of functions that current operators generally
21 do not have to do. This is probably more relevant for
22 areas that don't have ISOs currently, but we are talking
23 about a lot more auctions, a lot more types of markets, a
24 lot more types of ancillary markets, informational

1 requirements.

1 These kinds of functional requirements could
2 require more operating costs on a fully functioning RTO not
3 to mention regional planning, the studies that go into
4 that, et cetera.

5 On the open site besides the factor that maybe
6 lower operating costs over time is essentially a
7 consolidation type effect which we look for in a merger or
8 acquisition context where accommodations can be to various
9 kinds of labor and other operational efficiencies, that's
10 the area where in the end we could have come up with
11 numbers.

12 We decided in that stage, it is probably less to
13 call that a net zero for the purposes of this analysis.
14 That was sort of the thinking that went on as we are trying
15 to come to grips with that issue.

16 MS. LATHROP: Thank you.

17 MR. ELLIOT: That is Randy Elliot for Alabama
18 Municipal Electric Authority.

19 Could you tell me the basis for the 5 percent
20 increase in transmission capability within the subregions?
21 What's the basis of that assumption?

22 I guess that carries through all the different
23 policy cases.

24 MR. TURNER: Yes. The set of assumptions related

1 to transmission efficiencies carries through all policy

1 cases.

2 That particular assumption is actually sourced
3 back not only to the Order, it was partly used in the
4 environmental assessment for Order number 2000 by the
5 Commission.

6 It was actually developed earlier than that if I
7 am not mistaken. I will make sure of this, of course, but
8 I believe that was actually being implemented as early as
9 the Order 888 analyses back in the 1996 time frame.

10 Essentially that 5 percent is intended to reflect
11 better operational management of the grid and it is largely
12 the effect of the set of informational improvements that
13 the Commission talks about at some length in the Order 2000
14 Notice of Proposed Rule Making for the Order 2000.

15 So it has to do with better ATC reporting and a
16 lot to do with better sharing of information on a real-time
17 operating basis. That is to say it is not really intended
18 as a set of major capital upgrades, but rather across the
19 board consistent operational -- that's where we sourced
20 that.

21 MR. ELLIOT: This is Randy Elliot again. I am
22 just curious. Has there been any follow up analysis to see
23 whether that number is proven to be reasonable in light of
24 Order 888 and 2000?

1

MR. TURNER: Actually I am wondering, I am not

1 sure if the Rate Commission staff are there to talk about
2 this, but there has been a lot of activity looking at
3 curtailments and EL's and operational efficiencies or lack
4 thereof in different regions.

5 I am not sure if the right personnel are on hand
6 to answer that. ICF did not do any specific follow-up
7 research on that assumption.

8 MR. RUSSO: This is Tom Russo. Bruce Poole, if
9 you are on the line, could you address that question?

10 MR. POOLE: I am here. Could you repeat it
11 again?

12 MR. ELLIOT: Mr. Turner was explaining the basis
13 for the assumption of an increase, a 5 percent increase in
14 transmission capability within the subregions that's in the
15 three policy cases and he referred back to analysis done in
16 the EA's Order 2000 and perhaps even Order 888.

17 My question was whether there had been any follow
18 up analysis in light of the actual experience since Order
19 888 was promulgated to see whether that 5 percent increase
20 in transmission capability is realistic or not?

21 MR. POOLE: I personally don't know of any. That
22 doesn't mean that there wasn't. I can try to find out, but
23 I don't know of any.

24 MR. WHITMORE: This is Charlie Whitmore at FERC.

1 I am afraid we don't have anybody on hand who can answer

1 that so we better pass on to the next issue.

2 MR. ELLIOT: This is Randy Elliot again. One
3 related one. Is any assumptions in the model, and this may
4 be in another -- any assumptions about increases in
5 physical transmission capability, the investment that may
6 be necessary in order to implement anything in the three
7 policy cases?

8 MR. TURNER: Yes, this is Jim Turner again. That
9 5 percent improvement is a physical improvement and it is
10 not associated with any cost per capital upgrade again
11 because it is designed to be an operational informational
12 sort of improvement.

13 The whole issue of the dynamic or economic
14 expansion of the transmission system has come up a number
15 of times in these discussions. Essentially a model like
16 this one is quite capable of assessing the relative
17 economics of the transmission expansion as opposed to, for
18 example, building a new power plant.

19 You can do that in a link by link fashion and it
20 can actually be made dynamic in the sense that it can
21 actually increase the grade or expand the grade on an
22 economic basis just as it does in the generation -- that
23 functionality of the model is not utilized as a general --
24 (inaudible).

1 This dynamic expansion capability while it is in

1 the model is not used actively in this analysis nor is it
2 used by ICF in its general power forecast.

3 The reason for that is the difficulty of
4 transmission citings make it really in our view not
5 realistic. Simply to allow the model to place transmission
6 where it -- however, it is -- (inaudible) if you allow that
7 kind of thing, for example, when -- emerging -- can --

8 MR. WHITMORE: This is Charlie Whitmore at FERC.
9 There is at least one or two people on the line who aren't
10 hitting mute when they are not talking so we are getting a
11 lot of biplay so -- some of which is fun to listen to.

12 Thank you. Wait.

13 We are still getting some cross talk there.
14 Could you all please put your phones on mute when you are
15 not talking? Okay. We will just go on forward.

16 Are there other questions, comments?

17 MR. WAKEFIELD: Mr. Whitmore, gentlemen, this is
18 Dick Wakefield from Meak Power again.

19 Following up because I know you were talking
20 about leaving that transfer capability question. I think I
21 had to clarify what was said in the report and what we
22 assumed that meant.

23 MR. WHITMORE: Okay.

24 MR. WAKEFIELD: It refers to page 36 at the

1 bottom of the page the -- represented by briefs the

1 expected transfer capability of transmission links among
2 subregions within an RTO -- all incremental costs by 5
3 percent beginning in 2004.

4 Now, we interpreted that as being 5 percent per
5 annum for the next 16 years. Is that correct or not
6 correct?

7 MR. TURNER: This is Jim Turner. That is a
8 one-time increase.

9 MR. WAKEFIELD: That's very helpful. Otherwise,
10 it would be a huge increase over 16 years.

11 MR. TURNER: Yes, that's a nice growth rate, 5
12 percent per year.

13 MR. WAKEFIELD: Thank you.

14 MR. WHITMORE: Okay. Are there other questions,
15 comments?

16 MR. COMBS: Yes, this is Alan Combs. Jim, the
17 benefits are showed two ways. One is dollar benefit cost
18 for the various scenarios and then there is some regional
19 price impacts.

20 So I am wondering if the benefits and costs have
21 ever been lined up by region sort of a dollar table
22 format?

23 MR. TURNER: You mean the production costs?

24 MR. COMBS: Well, I think all the benefits and

1 costs including production cost savings, yes. Right.

1 MR. TURNER: Right. Well, the way we reported it
2 in the study itself, as you can see, there are system wide
3 production costs -- and there are regional energy -- both
4 types of economic impact at all levels.

5 Production cost -- (inaudible) it is actually --

6 MR. RUSSO: Jim, excuse me a minute. Would
7 everybody who is on the line please hit their mute button
8 especially the person who is talking about a reference to
9 Florida? Okay. Hello.

10 Jim, just keep on going.

11 MR. TURNER: Hopefully they will summarize their
12 suggestions at the end of this.

13 MR. TURNER: Well, the short answer to that is an
14 automatic -- if diagnostic. We are trying to understand
15 what happened in the different regions.

16 Of course, part of the reasons for -- the system
17 level instead of the regional level is there are some
18 interactions between the regions such that if you are
19 looking at one region alone, it may be building, for
20 example, requirements next door, just cheaper to build in
21 that region.

22 So reporting to the system level gives you a
23 closed system and is fully consistent. But those regional
24 production costs have been requested by other people on the

1 calls and it is something that people certainly look at in

1 terms of understanding the dynamics of what's going on
2 here.

3 MR. WHITMORE: This is Charlie Whitmore at FERC.
4 I think teasing all of that stuff is complicated enough
5 that we are not going to send it out with the immediate
6 clarifications that we are doing in the next day or two;
7 but if you would like more information on that, please do
8 include it in your April 9 comments.

9 Are there other comments, questions?

10 UNKNOWN CALLER: This is David -- just a
11 bookkeeping question. Do you have any idea when the
12 transcripts will be available?

13 MR. RUSSO: Tom Russo. The transcript from this
14 meeting will probably be available 11 days from now and
15 they will be put up on the Web site. That's assuming that
16 we receive the transcripts tomorrow and you don't want to
17 pay for them.

18 If you do want them immediately, you have no
19 choice but to get them from Ace Reporting.

20 UNKNOWN CALLER: Thank you.

21 UNKNOWN CALLER: Is Rene Deazon still on the
22 line? Rene?

23 MR. RUSSO: I think they are playing bridge.

24 UNKNOWN CALLER: Jim, Charlie or Tom, it may be

1 possible that you can get the operator to get that line and

1 cut off.

2 UNKNOWN CALLER: I have to say I believe it is
3 Florida Power & Light.

4 MR. RUSSO: Okay. Here is what I would like to
5 do, folks. I am going to get the operator. Do not hang
6 up, whatever you do.

7 (Pause.)

8 MR. WHITMORE: Okay. This is Charlie Whitmore at
9 FERC again.

10 Are there further questions, comments?

11 MR. BECKER: Mr. Whitmore, I am sorry I am
12 speaking so much but since there is so much silence.

13 MR. WHITMORE: Otherwise, we are going sit here
14 and look at ourselves.

15 MR. BECKER: In the report there is a Figure 3.3
16 for the Southeast energy transfers in the year 2006.

17 There are similar tables for the other regions.
18 The figure shows only the changes on the base case
19 transfer.

20 There is at least one place in the report where
21 it refers to this table and it seems to indicate that there
22 are before and after transfers that are provided; but when
23 you go to the figures, there are not. There are only the
24 changes.

1

We would like very much and feel we need to have

1 the base case transfers in order to interpret these
2 results.

3 MR. TURNER: This is Jim Turner at ICF. Let me
4 address that briefly. These power flow maps that we
5 included we feel are important and useful diagnostic tools
6 when you are trying to understand what is happening and
7 what the information is for the dynamics that would appear
8 in these runs.

9 These tables did in fact go to several iterations
10 and you recall in various points that there was too much
11 information or not enough information. We were trying make
12 our own judgment call as to what was the most useful and
13 clear way to -- so, yes, you are quite correct that these
14 maps could include and in fact have at times included the
15 base and the policy case transfers.

16 I believe that that information has already been
17 reflected in one other call. It certainly is information
18 that exists and it actually exists by segment, not even in
19 the aggregate way, but in the sort of 10 different demand
20 levels.

21 The transfers for each of those demand levels are
22 part of the model and part of the output of the model.

23 MR. WHITMORE: This is Charlie Whitmore at FERC.
24 If I remember an earlier version of this report, it did

1 report both the base case and the scenario and presuming

1 that it is easy to resurrect I would -- I think we will try
2 to get it out in the document that we are sending out
3 tomorrow or the next day.

4 MR. BECKER: Thank you very much.

5 MR. WHITMORE: Jim does that make sense to you?

6 In fact, it shouldn't be a whole lot of trouble to do
7 that.

8 MS. KELLY: This is Sue Kelly. Could I just ask
9 how the document which is coming out within the next day or
10 two is going to be released?

11 Is it going to be posted on the Web site or --

12 MR. RUSSO: We are definitely going to be posting
13 it to the Web site. It will be made available to
14 everyone.

15 We are making no distinctions here irrespective
16 of where the source of the request is coming from. So you
17 will probably -- you are definitely going to see it on the
18 Web site.

19 We will probably issue some type of a notice
20 notifying everybody that it is available as well.

21 MS. KELLY: Thank you for clarifying.

22 MR. WHITMORE: This is Charlie Whitmore. Or else
23 it will be placed in the record on all of the relevant
24 documents.

1

MR. KERR: Jim Kerr in Raleigh. There was some

1 questions on my call last week with respect to the one time
2 increase in transmission capacity and the associated call
3 for absence thereof.

4 Are you going to respond to those questions in
5 the same manner?

6 MR. RUSSO: Jim.

7 MR. WHITMORE: This is Charlie Whitmore and I am
8 not exactly sure what we are going to do with that so the
9 best thing that I can suggest is to wait and see whether it
10 comes out as part of this document tomorrow and the next
11 day or not.

12 We intend to have one document that does
13 everything that we can in the way of clarification from
14 last week and that's certainly on the candidate list for
15 things to go into that, but I am not quite sure where we
16 ended up, whether it was going in or not.

17 The decision basically is on whether it is
18 something that's going to require a lot of effort to go and
19 figure out or whether there is a pretty straight, easy
20 answer to it.

21 I am just not quite sure of that right now.

22 MR. RUSSO: If it is a pretty straightforward and
23 easy answer, you will probably see it in tomorrow's
24 document release on the assumptions.

1

MR. TURNER: Yes, that's right. This is Jim at

1 ICF. The basic -- we are doing a couple of things.

2 First was the assumptions document early in this
3 project. That generally is most about base case
4 assumptions and a lot of them.

5 What we are doing now is adding a whole section
6 about policy assumptions and I am hoping to be
7 comprehensive and cover each of those assumptions.

8 There won't be a whole lot of additional
9 information about them, but it should at least be the next
10 step and that increase in transfer in the policy cases is
11 indeed one of those policy assumptions just like generator
12 improvements and demand response, so each of those will be
13 addressed in a brief format in the documents that should be
14 basically done tomorrow.

15 It is just a question of it may need a little bit
16 of review, but certainly Wednesday we will have it over to
17 the Commission.

18 MR. WHITMORE: Okay.

19 MR. ELLIOT: This is Randy Elliot from L&M
20 Minnesota Electric Authority. I have an unrelated
21 question.

22 This has to do with the case number one, larger
23 RTOs.

24 When you go from four RTO's down to three RTOs,

1 what things are changing? It looks to me from reading the

1 report that the only thing that is changing are the RTO
2 barriers and therefore anything that would -- anything in
3 your analysis in which you left things alone within an RTO
4 would then be collapsed and would be taken care of within
5 the larger RTO boundaries, but you weren't changing any of
6 your assumptions about efficiency improvements, that those
7 are the same in the RTO policy case as in the sensitivity
8 case number one.

9 So I guess that's a rambling question. Let me
10 summarize it.

11 Are the efficiency improvements the same in
12 sensitivity case number one as in the RTO policy case?

13 MR. TURNER: This is Jim Turner. The answer is,
14 yes, those generator and demand response improvements are
15 held constant.

16 The only assumptions that differ in those
17 sensitivity cases are the transmission assumptions about
18 RTO boundaries.

19 Now, we point out I think in the report and in
20 the presentation we gave the Commission and in every other
21 opportunity really that we get, we point out that the link
22 between RTO scope and market performance is a very
23 important link that I think is not well understood and
24 really if that link were made more explicit, we could have

1 assumed that.

1 But to the degree that that link is made more
2 explicit, you will see a very dramatic increase in the
3 importance of those sensitivity cases or at least a
4 magnitude of the results that you would get from this
5 model.

6 The scope changes. In this analysis it is
7 designed as a peer sensitivity on the transmission
8 assumption and so it doesn't change the generator or demand
9 response assumptions. I want to make that as clear as
10 possible.

11 MR. ELLIOT: Thank. That's very clear. Thank
12 you.

13 MR. WHITMORE: Okay. Charlie Whitmore at FERC.
14 Are there further questions, comments?

15 MR. KLINE: This is Carl Kline from Scana
16 Energy. I have been waiting for Entergy to ask this
17 question and I haven't heard so maybe I will chime in on
18 their behalf here.

19 At the bottom of page 58, there is a description
20 of the way flows run of energy in the RTO policy case and a
21 description that particularly they run from the Midwest in
22 the direction of the Southeast.

23 And the quotation is the opening of the higher
24 priced regions in the Southeast particularly Florida but

1 also Entergy.

1 And all the diagrams indicate flows from the
2 Midwest into Florida and into Entergy. But all the tables
3 of prices identify Florida as having higher prices than any
4 place in the Midwest, but Entergy is having lower prices
5 than any place in the Midwest.

6 What accounts for these flows to Entergy?

7 MR. TURNER: This is Jim Turner at ICF
8 Consulting. Yes, that is a very good question.

9 To some extent we are generalizing between
10 scenarios here, but we are only really for time purposes or
11 space considerations reporting in the maps and the diagrams
12 particular runs and particular years.

13 So that you are getting a limited view with the
14 diagrams and we are making sort of more general statements
15 in the text. That's a partial accounting for why there may
16 be some discrepancies there.

17 The more you look at Entergy in particular, the
18 more it seems that Entergy is more of a throughway than a
19 final destination for this analysis.

20 In general, we are reporting average prices and
21 that's a very important consideration. We are averaging 10
22 different demand levels. Okay.

23 So we actually have the energy crisis in the
24 model are actually clearing at 10 different demand levels

1 and the prices where a region may import power may only

1 relate to one or two of those demand -- so what you need to
2 do is understand when Entergy may have lower average annual
3 prices, there may be one or two segments in which Entergy
4 becomes an importer vis-a-vis the Midwest even though as an
5 average matter its prices might be lower.

6 Again, those are the sorts of very detailed
7 assessments that it just takes more reporting really than
8 we have been able to do in a national analysis like that.
9 A lot of that is an aggregation issue.

10 MR. WHITMORE: This is Charlie Whitmore at FERC.
11 Would it be fair to say, Jim, that helps explain why some
12 of these links, the transmission, the amount of power goes
13 up in both directions?

14 MR. TURNER: Absolutely. Absolutely. We also
15 have seasons so there are seasons as well as segments and
16 what happens the flows are sensitive to the relative prices
17 within that particular segment and season.

18 So that the model may shift power between region
19 A to region B at a high demand segment but may ship it the
20 other way during the load demand segment.

21 So it is tricky to get all the way down to the
22 bottom level for all of these regions and all of these
23 effects.

24 MR. WHITMORE: This is Charlie Whitmore at FERC

1 again. More comments, question?

1 MR. WILLIAMS: Yes, this is Jim Williams at PGM.

2 I have a question with regard to Table 3.6, the averages,
3 the West average, Midwest average, so on.

4 Are they intended to be the average of the
5 numbers above that, or are they load weighted somehow?

6 MR. TURNER: That was Table 3.6?

7 MR. WILLIAMS: Yes, page 56.

8 MR. TURNER: Yes, they are designed as the --
9 yes. You go down and then the average appears.

10 MR. WILLIAMS: Right. The seven West subregions
11 and then the West average?

12 MR. TURNER: That's right.

13 MR. WILLIAMS: I see that. Okay. Actually those
14 numbers, are they used anywhere else in the analysis?

15 MR. TURNER: The regional prices?

16 MR. WILLIAMS: The averages.

17 MR. TURNER: I think those we put in this table
18 to make it easier for people to think about what happens in
19 their broad region.

20 We use them a lot for our own diagnostic
21 purposes, but I don't believe they are used a lot in the
22 rest of the report. I am not sure if you had something
23 specific in mind.

24 MR. WILLIAMS: Well, just specific in mind the

1 fact that the first years generally don't average to those

1 numbers in either the Northeast or the West regions.

2 MR. TURNER: The whole way averaging gets done
3 is, of course, a fine art when you have got 10 demand
4 segments and two seasons.

5 If that's a plea to recheck our averaging, I
6 would be more than happy to. I understand what you are
7 saying there and there is a lot of weighting going on in
8 those subregional averages. It is not that transparent.
9 Sorry about that.

10 MR. WHITMORE: Did you, this is Charlie Whitmore,
11 did you have a follow-up question to that? Are there other
12 questions, comments?

13 MS. CONNER: Yes, this is May Conner. A moment
14 ago we were talking about flows in Florida and I found the
15 diagram on the floor. It says in 2006 and TWH.

16 I am wondering if you considered the limited
17 import capacity currently into Florida or were you in '06
18 saying that that would be fixed and we would not have the
19 limits that we have now?

20 MR. TURNER: Jim Turner at ICF. We are using
21 NERC reported transfer limits in Florida and other than the
22 5 percent increase in everybody's transfer limits in the
23 policy cases, there are no major additional increases to
24 anybody's transfer capability.

1

MS. CONNER: You did use the constraints that I

1 was asking about. I know our Florida prices seem to be
2 higher than the folks that live on a lot of coal. But if
3 that was considered, then that's okay.

4 MR. TURNER: Yes, and that import just for your
5 information is somewhere in the neighborhood of 10 percent
6 of the power supply in Florida which is a pretty big
7 change, but it is not overwhelming. 10 percent can make a
8 big difference.

9 I will also say that we have been asked to
10 further examine and check and double check those particular
11 links because of their importance to the study.

12 MS. CONNER: Right. And also the Florida links
13 are pretty well hooked up with generation north of the
14 border that comes into Florida Power & Light and others so
15 it is not exactly free wheeling per se.

16 However, of course, with the RTO operation, that
17 power could go anywhere.

18 MR. TURNER: There is a number of builds going
19 into Florida that may free up some of that in A few years.

20 MS. CONNER: Thank you.

21 MR. WHITMORE: This is Charlie Whitmore at FERC.
22 As they say on talk radio, we have a line open.

23 MR. GARBEZ: This is Garbez in Mississippi. I
24 have a couple of kind of fundamental questions.

1

I don't know how long you been talking here an

1 you may have covered this already, but I am wondering if
2 you take the model in its previous incarnation, that is
3 before you try to do what you are trying to do with it now,
4 in other words, what it was used before, can you say
5 anything about how accurate the model was in its previous
6 uses?

7 MR. TURNER: Well, when we produced what we call
8 qualifications packages for folks, wholesale power group,
9 the forecasting group, it does talk about that quite a bit
10 and I think that they would argue they have a pretty good
11 track record.

12 Again, this kind of modeling system is really
13 better suited for what you would call fundamental
14 analysis. That is to say looking at it two or three years
15 ahead and looking for over supply or under supply raising
16 red flags about the California market, for example.

17 That's something that we documented going back,
18 you know, prior to the crisis some eight months before the
19 California crisis.

20 But those sort of larger scales. Currently you
21 would look at, for instance, essential capacity glut in
22 some regions where there is so many builds going into that,
23 it can't help but depress prices.

24 That's a different kind of forecasting just

1 because of the time frame. However, when it comes to the

1 broad fundamental -- I mean ICF would claim that we do a
2 good job. But what else would we claim?

3 MR. GARBEZ: Exactly. It might be useful if you
4 were to show somewhere, and I don't know if you can do it
5 or not, just how accurate these predictions have been in
6 the past.

7 MR. TURNER: That's a good point. I think a lot
8 we do is pollution allowance forecasting. We have done
9 quite bit of work and reporting on that and that's a pretty
10 good track record as well, although it is not the same or
11 as relevant to this purpose.

12 MR. GARBEZ: I have a second question here and
13 this is even broader than the previous one.

14 You are probably aware of the little critique
15 that Thomas Leonard has written or is it Leonard?

16 MR. TURNER: Progress Freedom Foundation?

17 MR. GARBEZ: Yes. I am wondering if you are
18 going to address in any of your responses here his
19 critique?

20 MR. TURNER: Well, this is Jim Turner, ICF. The
21 nature of his critique is what I would call the
22 philosophical or the belief issue which is indeed -- you
23 can make the connection between RTO policy and marketing
24 improvement. It is a very good issue.

1

I don't know what ICF's formal response is going

1 to be. We toyed with the notion of trying to respond in
2 some fashion, but essentially the Commission's direction
3 that we are responding to in these regards and I think the
4 Commission, unless I am missing something, my guess is
5 going to wait and see how the comments play out before
6 making any decisions about what kind of response they are
7 going to be offering folks.

8 I am already talking off my turn here. I will
9 let the Commission talk about that.

10 MR. WHITMORE: This is Charlie Whitmore at the
11 Commission. A couple of comments about the things he has
12 raised.

13 First of all, the issue of how well in the real
14 world the model has turned out is one that's been raised by
15 other people in our other calls in slightly different
16 forms.

17 For example, is there any evidence that ISOs
18 actually promote more efficiency than was there before,
19 things like that. I think that's a great thing to put into
20 your April 9 comments and I think in one form or another
21 somebody is going to end up studying that. So I would
22 really encourage you to do that.

23 I think that begins to get at the second issue
24 which is this report very much is one that says: Okay,

1 RTOs, the purpose of doing RTOs is to create more

1 competition and by doing that to drive down overall costs
2 and give benefits for consumers.

3 And presuming that that happens, what would the
4 benefits be? Would they be worth it? Would they be worth
5 the cost of doing the RTOs and so forth?

6 There is a separate question which is: Are RTOs
7 necessary to get those efficiencies and are they the best
8 way to get them? Do competitive markets really depend on
9 RTOs and will RTOs really work the way they are intended
10 to?

11 It strikes me that this question about how well
12 existing ISOs and things like that work begins to get at
13 that question.

14 So in a way a request to do more work on that
15 might serve both of your points. I do think it is fair to
16 note simply that this study didn't and couldn't get at the
17 issue of whether RTOs would work as we hoped they will. It
18 was designed to get at the question of, if they do work,
19 are they worth it; and I think there are great
20 conversations to be held on the points that you are
21 raising.

22 Are there other follow up comments to that or
23 other comments, questions people would like to ask?

24 MR. RUSSO: This is Tom Russo. One thing I would

1 like to bring up and this is to the process and I am sure

1 you all know this is that these teleconferences and all
2 teleconferences and the technical meeting that we are going
3 to be holding March 25 here, the transcripts are going to
4 be put in the RTO dockets and rule making docket on
5 standard marketing designs RM-12 docket.

6 Everything from the report and everything that
7 ensues from it are going to be used by the Commission to
8 make decisions dealing with not only RTOs but standard
9 market design.

10 So if you haven't done so already, I would really
11 encourage a quick read of the working paper on standard
12 market design which is out on our Web site. We are finding
13 here that standard market design and RTO formation are not
14 necessarily unrelated subjects here. So --

15 MR. WHITMORE: This is Charlie Whitmore. I hope
16 they are not. Are there other comments, questions before
17 we wrap up?

18 MR. RUSSO: Folks, we have plenty of time. If
19 you want to take a minute or two and just contemplate any
20 additional questions, go right ahead.

21 MR. BECKER: That is Mark Becker at Williams
22 Energy. I was curious how you arrived at the discount rate
23 you used for net rate valuing.

24 MR. TURNER: At the company a lot of discount

1 rates for a lot of different purposes. I would actually

1 have to get back to you and make sure that I characterize
2 that particular one correctly.

3 I am actually not recollecting right this minute
4 whether we just used a kind of standard reference rate like
5 a bond rate or something like that; or if that is one of
6 the sort of modeling discount rates, which are actually a
7 product of a lot of assumptions about the structure of debt
8 versus equity. Discount rate, the model, uses in -- I want
9 to make sure we didn't use a simple reference rate.

10 I would have to get back to you on Tuesday or
11 Wednesday.

12 MR. BECKER: You may have helped answer part of
13 my question because I was curious if that same discount
14 rate was used when you were developing the economics of a
15 new build or not?

16 MR. TURNER: Yes, the ones we used for economics
17 for new build is indigenous, it is essentially a weighted
18 capital based on a list of eight or 10 financing
19 assumptions that you will see in the assumptions
20 documents.

21 That's the internal one we are using. I have to
22 make sure that the one you are seeing in that table is
23 actually the same one.

24 MR. BECKER: Okay. Thank you.

1

MR. WAKEFIELD: Dick Wakefield for Meak Power.

1 The statement is made on the report on page 36 related to
2 the transmission hurdle rates that quote "the hurdle rates
3 are used in this exercise to represent both actual
4 transmission usage fees and market inefficiencies." That's
5 the end of the quote.

6 The question is if these hurdle rates which are
7 manipulated in order to calibrate the model in some way, if
8 these hurdle rates are done away with within the regions,
9 then I believe our assumption is from reading that this
10 reflects the limitation of pancaking within the RTO, which
11 is a valid thing to achieve; but, if so, how are the lost
12 revenues to the transmission owners within the RTO
13 reflected or are they reflected in the model results?

14 MR. TURNER: This is Jim Turner. That's a great
15 question. We can't get any of these calls done without
16 some discussion of hurdle rates and the associated
17 transmission effects that are related to the hurdle rates.

18 Essentially when you are talking about lost
19 transmission revenues, that is not something that we are
20 handling in the model and that has a couple of wrinkles to
21 it.

22 One is the -- a lot of the revenue assumptions
23 and revenue flows for transmission have to do with capital
24 costs recovery and again we are not burying the cost of

1 transmission there.

1 Essentially we could as an accounting exercise
2 basically develop analyses like that and we have done that
3 in many cases for many clients.

4 But because those sum costs don't effect the
5 going forward investment decision or operational decision,
6 they are not indigenous in the model. That's the bulk of
7 the revenue requirements for transmission. You get away
8 from that very rapidly.

9 Beyond that you are quite correct to say that
10 there is an elimination of pancaking, but that's only one
11 of a series of barriers to trade that are represented by
12 the hurdle rate.

13 So those are sort of categorized in the initial
14 section, the regulatory framing section. It is mostly in
15 FERC's language but essentially from a strict modeling
16 standpoint, those hurdle rates are intended to -- the model
17 to dispatch regions much the same as they were dispatched
18 in another year. Regardless of what the force of that
19 dispatch was, it is going to be reflected in these hurdle
20 rates.

21 That's why we called them explicit hurdle rates.
22 That's why we distinguish from the transmission karats
23 strictly speaking. It is very easy for folks to get
24 confused about that. It is understandable.

1

It is very much a peer modeling type of an

1 exercise. Essentially that incorporates incorrect
2 reporting of -- all kinds of explicit and institutional,
3 really any reason why an economic transaction in the year
4 2000 was not conducted.

5 So that's all bundled into one economic
6 transmission characteristic that we are calling the hurdle
7 rate. So there is always some discussion of that that
8 needs to go on.

9 No, we are not calculating the lost revenues for
10 transmission providers which was your direct question.

11 MR. WAKEFIELD: Thank you.

12 MR. WHITMORE: Other comments, questions? This
13 is Charlie Whitmore at FERC. Well, hearing none, I would
14 like to thank you all for joining us today.

15 It has been a very interesting series of
16 questions and I hope it has been useful to you. There will
17 be a public conference next Monday 10:00 in the morning at
18 which any or all are welcome in the Commission Meeting Room
19 here in Washington and we look forward to many more
20 discussions with all of you.

21 Any final comments from anybody? Okay. Well,
22 thank you very much and we will be in touch.

23 (Whereupon, at 3:30 p.m., the teleconference was
24 concluded.)

